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UNCLAS SECTION 01 OF 04 HANOI 000888

SIPDIS

SENSITIVE

STATE FOR EAP/BCLTV AND EB/TPP/ABT/BTT
STATE ALSO PASS USTR SPOONER
USDOC ALSO PASS OTEXA LEONARD
USDOC FOR 6500 AND 4430/MAC/AP/OPB/VLC/HPPHO
CUSTOMS FOR JANET LABUDA
LABOR FOR ANA VALDES

E.O. 12958: N/A

TAGS: [ETRD](#) [EINV](#) [KTEX](#) [VM](#)

SUBJECT: Vietnam: Textile Consultations in Hanoi

SENSITIVE BUT UNCLASSIFIED PROTECT ACCORDINGLY

Ref: (A) STATE 30781 (B) 03 HANOI 2253

[11.](#) (SBU) Summary and Introduction: USTR Special Textile Negotiator David Spooner and Department of Commerce Deputy Assistant Secretary James Leonard led textile consultations with the GVN March 17-18. The discussions focused on whether Vietnam's textile quotas should be reduced, given a U.S. Customs and Border Patrol (CBP) report indicating some transshipment took place during the period prior to negotiation of the bilateral textile agreement last year. The GVN outlined steps it has taken since conclusion of the textile agreement to prevent future transshipment, including stripping quota from companies suspected of transshipping textiles and concluding an agreement to implement an electronic visa system (ELVIS). The GVN also provided boxes of supplemental documentation for analysis by CBP before a decision is made on reducing GVN quota levels. GVN officials asked to renegotiate the textile agreement and requested approval to borrow from next year's quota. The U.S. delegation stated that the U.S. has no interest in renegotiating the agreement, and urged the GVN to agree to an extension of the agreement instead. Only after the GVN agrees to an extension would Vietnam be able to borrow from 2005 quota. End Summary.

Opening Remarks

[12.](#) (SBU) In its opening remarks the U.S. delegation acknowledged that the CBP team that visited Vietnam in August 2003 (Ref B) had found significant production capacity in Vietnam and expressed appreciation for the GVN's "exemplary" cooperation with CBP authorities. The U.S. side explained that paragraph 19B of the bilateral textile agreement allows the U.S. to consult with the GVN on whether Vietnam's quota should be adjusted based on the results of the CBP's August investigation. These consultations can last up to ninety days. The U.S. side emphasized that a decision to reduce quota would not be done to penalize Vietnam, but rather to ensure that Vietnam's quota reflects true trade for the period March 2002 to February 2003 - the period of trade upon which the negotiations were based. The U.S. delegation explained that the USG would consider carefully Vietnamese data and arguments regarding CBP's findings before making any decision on quota levels. The USG delegation emphasized the numbers in CBP's report are modest and should be "manageable," and expressed hope that this would be seen as a small issue that both sides could easily put behind them.

[13.](#) (SBU) Vice Minister Luong Van Tu, opening for the GVN, stated that Vietnam had a relatively short period of quota-free access to the U.S. market. He noted that the CBP team that visited Vietnam in August had reconfirmed Vietnam's textile production capacity. The Vice Minister asked the U.S. side to take into account the time constraints faced by the Vietnamese enterprises during the CBP's visit and the fact that many of them were not yet familiar with U.S. Customs procedures. Even though some companies had difficulty getting documents prepared in time, CBP had praised their commitment and cooperation, the Vice Minister added.

[14.](#) (SBU) Since the signing of the textile agreement, the GVN has taken steps to help Vietnamese companies learn how to do business in the U.S. and to prevent future circumvention, such as hosting hundreds of workshops for Vietnamese companies on how to do business with the U.S. He also noted that the GVN had demonstrated its willingness to prevent transshipment by agreeing to implement an electronic visa system (ELVIS). Additionally, VM Tu highlighted Vietnam as an alternative to China for sourcing textile and apparel production. He said that many U.S. investors come to Vietnam because they want to diversify their outsourcing channels. Almost all the major U.S. distributors and

importers have a presence in Vietnam, he claimed. However, he argued, current U.S. quota levels are only meeting about sixty percent of Vietnamese production capacity. Delegation meets with Minister of Trade

15. (SBU) Minister of Trade Truong Dinh Tuyen also met separately with Spooner, Leonard and Ambassador. Tuyen highlighted Vietnam's excess production capacity and the good cooperation between the two governments on preventing circumvention. Tuyen reconfirmed the GVN's seriousness and goodwill with respect to combating circumvention, noting that transshipment does not benefit the GVN. The GVN has invested the capital, time and effort into launching an ELVIS even though the cost is high and Vietnam will need to use the system for a relatively short time. (Note: Tuyen noted that Vietnam plans to accede to the WTO in 2005 or 2006. End note.) The Minister claimed that since implementation of the textile agreement, many factories have had to close (because of a lack of quota). He added that he regularly meets with U.S. buyers looking for additional quota, but he has none left to give them. Quota levels allocated to Vietnam for 2004 are about twenty to thirty percent lower than what Vietnam actually needs, Tuyen said, and then he requested that the USG not reduce quota levels any further. Finally, Tuyen assured the U.S. side that the GVN had taken quota away from companies that could not provide full documentation on their shipments. The small discrepancies identified by U.S. Customs were out of GVN control, he concluded. Tuyen also requested that the USG support a GVN request to renegotiate the textile agreement to "foster bilateral trade."

16. (SBU) Spooner praised GVN cooperation with U.S. Customs, noted that it is "admirable and wise" for the GVN to sign up for ELVIS, and explained that Paragraph 19B allowed the U.S. to request consultations on Vietnam's quota levels. Spooner also emphasized that the U.S. established quotas for all countries, including Vietnam, based on current trade, not capacity. He suggested the two sides "come to an arrangement" soon on the status of the textile agreement so that Vietnam can borrow from next year's quota.

GVN Responds to Customs Report

17. (SBU) In response to the USG offer to review additional information (ref A), the GVN delegation turned over several boxes of documents to the U.S. delegation. According to the GVN, these documents provide additional information on several of the companies identified as problematic in the Customs report. The documents also respond to the USG request for additional information on six other companies (not mentioned in the CBP report). These documents have been pouched to CBP in Washington for review and analysis. The U.S. delegation stated that it would await CBP's analysis of the documents before making any final decisions on reduction of Vietnam's quota.

18. (SBU) The following is the GVN summary of the information contained in the documents provided to the U.S. side.

-- Refused Admission (1 enterprise)

Coopimex is the one company that refused CBP's request to inspect its factory during the visit in August. According to the GVN, Coopimex is a small typical cooperative enterprise that deals mainly in very small orders. The total value of its exports for all of 2002 and the first two months of 2003 was less than USD 700,000. Coopimex told the GVN that they had refused CBP's request for admission to its offices because the Vice Director was away at a trade fair on the day of the request. Coopimex is a trading company, not a manufacturer, and so was unable to provide documentation for each stage of production. Coopimex provided additional documentation, although it covers only the first phase of production. After the CBP visit, GVN retracted quota from this company and removed its goods from the port. The GVN noted that Coopimex deals in such small orders, it is unlikely that it was involved in transshipment.

-- Closed Enterprises (5 companies)

According to the GVN, it is not surprising that several of the companies CBP had wanted to visit were closed. In Vietnam there is a continual flux in the market with companies opening and closing their doors on an ongoing basis, the GVN delegation noted. The five companies in this category are all small; most of their export shipments are worth less than USD 4000. Additionally, these companies tend to outsource production to households and small cooperatives. According to the GVN it is unlikely these companies were involved in transshipment because their shipments are too small.

-- Not Produced

During the August visit, the CBP found more than thirty certificates of origin (C/O) they believed to be false. According to the GVN, it is highly likely that goods shipped under false C/Os were not produced in Vietnam, and it would be unfair to penalize Vietnam for these shipments. However, the GVN delegation noted, it is also possible that not all thirty of the C/Os were actually false. In the period prior to signing the textile agreement, many companies were new to the U.S. market and did not understand U.S. trade practices. Some of these companies may have tried to avoid the cost charged by the Vietnam Chamber of Commerce and Industry (VCCI) for issuing a C/O and simply issued their own. They did not understand the negative consequences that would result from doing this. According to the GVN, while some of the companies in this column may have been involved in transshipment, it is unlikely all of them were.

-- Believed Transshipped

Five of the eleven companies in this column provided additional documentation, including customs declarations for exports and imports; certificates of origin, cutting records and other documents. (Note. One of these companies is a subcontractor that does not export so the GVN actually only provided documentation on four companies. End note.)

-- Insufficient Documents

Ref A requested additional information on six companies that did not provide sufficient documentation to verify production during CBP's August trip. The GVN collected customs declarations of exports and imports; certificates of origin, cutting memos, cutting and sewing records and other documents from these six companies.

Renegotiate or Extend

9. (SBU) During the consultations, the GVN requested the U.S. agree to renegotiate the bilateral textile agreement, which will expire at the end of 2004. The GVN also asked for authority to borrow from next year's quota, even before finalizing the status of the agreement. The U.S. side responded that the USG is unwilling to renegotiate and encouraged the GVN to agree quickly to extend the agreement instead. The U.S. delegation reminded the Vietnamese side that this was an election year and that if a renegotiation were to take place, there would be significant pressure in the U.S. to reduce quota levels. The U.S. side also noted that a decision on the status of the agreement has to be made before the GVN can borrow from next year's quota.

Text of Memo of Consultations

10. (SBU) At the end of the negotiations, the two sides signed a Memorandum of Consultations. Text follows:

Memorandum of Consultations on Agreement Relating to Trade in Cotton, Wool, Man-Made Fiber, Non-Cotton Vegetable Fiber and Silk Blend Textiles and Textile Products Between the Governments of the United States of America and the Socialist Republic of Vietnam (Herein after called The Agreement)

Pursuant to the provision 19(B) of the U.S.-Vietnam Textile Agreement, from March 17 to 18, 2004 in Hanoi, consultations between Vietnam and the U.S. took place at the Ministry of Trade of Vietnam.

Vietnamese delegates:

1. Vice Minister of Trade, Luong Van Tu
2. Mr. Nguyen Thanh Bien, Chief of Administration
3. Mr. Le Van Thang, Deputy Director General of Export-Import Department
4. Mr. Nguyen Van Binh, Deputy General Director of Department of Americas
5. Mr. Nguyen Thu Do, Government Office
6. Mr. Nguyen Hoang Phuong, Ministry of Industry
7. Mr. Phan Sinh, General Department of Customs

U.S. delegates:

1. Mr. James Leonard, Deputy Assistant Secretary of Commerce, Chairman of CITA
2. Mr. David Spooner, Negotiator of Textiles, USTR
3. Mr. Samuel R. Watson, Economic Counselor, U.S. Embassy
4. Ms. Jessica Levine Adkins, U.S. Embassy
5. Ms. Nguyen Thi Bich Ha, U.S. Embassy
6. Mr. Michael F. Cavanaugh, U.S. Consulate General in Ho Chi Minh City

The two sides discussed inspection results of the U.S. Customs verification team performed in August 2003 and noted that (i) Ministry of Trade, General Department of Customs and enterprises of Vietnam cooperated well with the inspection team of U.S. Customs and (ii) the production capacity of textile and apparel of Vietnam is recognized to

be substantial and is of potential to accelerate bilateral trade between Vietnam and the U.S.,(iii) the discrepancy in trade, according to the Customs report, is small.

Vietnam has presented supplementary information for the cases noted in the U.S. Customs report. The Vietnam and U.S. representatives noted the high level of cooperation on both sides.

The U.S. highly appreciates efforts of the Vietnamese in the rapid and serious implementation of provisions of the Agreement right after the conclusion, including the establishment of the electronic visa (ELVIS) and imposition of strict measures on enterprises in question.

Vietnam has expressed its wish to effectuate the use of carryforward for 2004 and the U.S. agreed to promptly inform Vietnam of necessary procedures. The consultation took place in a straightforward, serious and friendly atmosphere.

The memorandum is done in Hanoi March 18, 2004 in English and Vietnamese. The two versions are equally legitimate.

Representative of the Ministry of Trade of Vietnam
(signed)
Le Van Thang

Representative of the U.S. Department of Commerce
(signed)
James C. Leonard III

Representative of USTR
(signed)
David M. Spooner
End Text.

11. (U) This cable was cleared by USTR Textile Negotiator Spooner and DOC DAS Leonard.
PORTER